

# Mercedes-Benz

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# Strategy Update

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October 6, 2020

The following presentation contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to many risks and uncertainties. If the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. For further details, please refer to the disclaimer at the end of the presentation.

Our statement of intent:

We will build  
the world's most  
desirable cars.

# We will deliver on this intent with our refocused strategy

## Think

and act  
like a luxury  
brand

## Focus

on  
profitable  
growth

## Expand

customer base  
by growing  
sub-brands

## Embrace

customers and  
grow recurrent  
revenues

## Lead

in electric  
drive and  
car software

## Lower

cost base  
and improve  
industrial  
footprint

Sustainability as a guiding principle

Driven by a highly qualified and motivated team

# Let us begin with our brand promise

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Luxury has always been part of our soul - and it's constantly evolving



It ties together our values and virtues.  
It's who we are. It's what we do best.  
Luxury is our home field advantage  
and our leading edge.

Luxury has always been part of our soul - and it's constantly evolving

It's our job to define it  
at each moment in time.



Luxury has always been part of our soul - and it's constantly evolving

And luxury of the future  
will be sustainable.

Ambition  
2039



# Luxury is where we belong, and luxury is where the growth is

Global # of wealthy individuals  
(private investable wealth > \$250k, individuals in million)



Per region  
(private investable wealth > \$250k, individuals in million)



Source: BCG Analysis September 2020; based on a COVID-19 quick rebound scenario

We will provide the luxury experience across all touchpoints

Brand touchpoints



Product substance



Digital experience



Setting new standards with the S-Class



Summing up pillar 1

Luxury is who we are  
and we will use it to grow  
economic value.

# Now let's talk about our strategy and execution in the market place

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# We will focus on profitable growth

## Profit

Rethink volume ambitions –  
profitability first

#1



## Price

Reorientate pricing  
and channel mix



## Portfolio

Reshape future product  
portfolio to optimize returns



# Rethink volume ambitions: Profitability first

Reinforce our contribution margins  
with current portfolio -  
shifting upwards over time

Ensure volume targets focus on the  
most profitable models and regions



# Reorientate pricing and channel mix

Markets primarily measured on **sales contribution** growth

Enhance positioning with optimized **product substance**

Manage **residual values** to determine new car supply

Get **stricter** about channel mix

Improve **lifecycle pricing**



# Reshape product portfolio: We will refocus product development resources to grow in the most profitable parts of our relevant segments

Overall global car market<sup>1</sup>  
will grow

Premium segment<sup>2</sup>  
will grow faster

Luxury segment<sup>3</sup>  
will grow fastest



<sup>1</sup> Total global LV market; <sup>2</sup> Top 20 premium definition; <sup>3</sup> Large luxury vehicles over approx. US\$ 70k (w/o tax); Source: IHS 08/2020

Summing up pillar 2

We will pursue higher  
portfolio profitability.

# Let us explain how we will further target profitable customer segments

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Sustainability as a guiding principle

Driven by a highly qualified and motivated team

Mercedes-Benz is our master brand and will always be our guiding star



World's most valuable  
luxury car brand<sup>1</sup>

<sup>1</sup> Interbrand ranking "Best Global Brands 2019"

# Rapid and highly profitable growth

MAYBACH



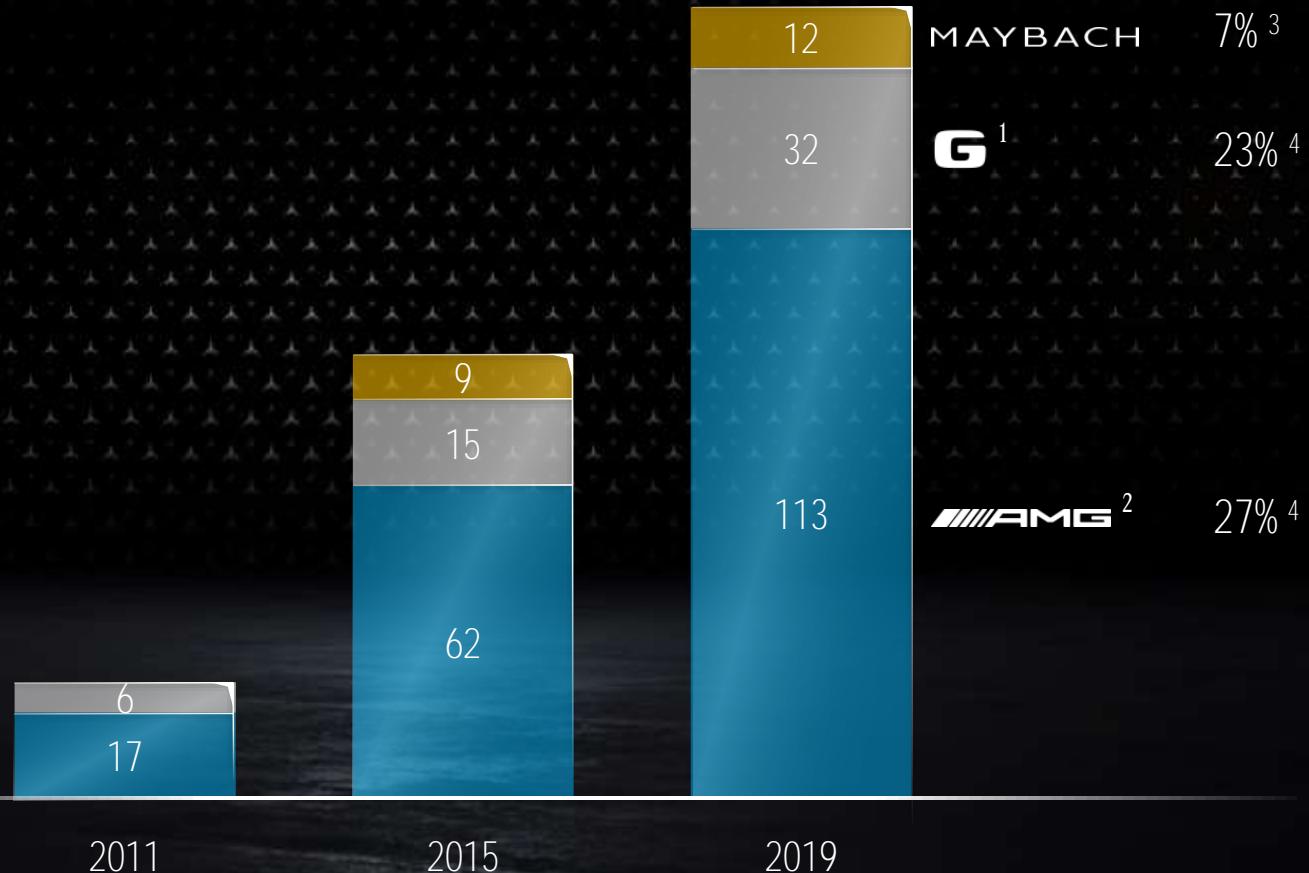
Sales volume in k units

CAGR 2011-2019

G



AMG

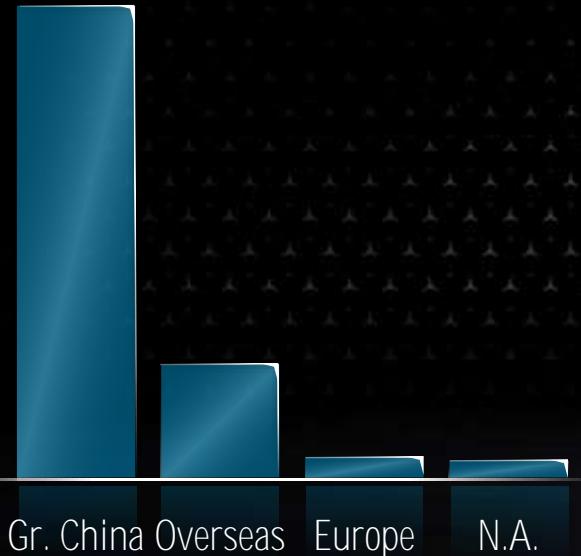


<sup>1</sup> G-Class without model 461; <sup>2</sup> AMG without G63; <sup>3</sup> Maybach CAGR (2015-2019); <sup>4</sup> CAGR of AMG and G-Class with G63 (double counting)

# Now it's time to accelerate the growth

MAYBACH

Sales actuals 2019



Global opportunity

G

Demand ahead of capacity



2013

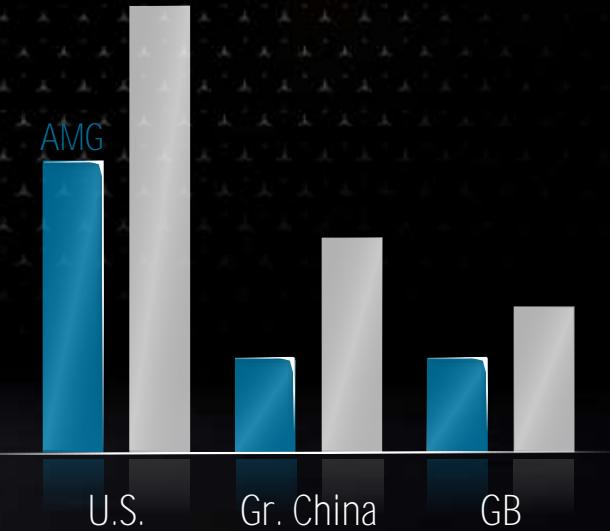


2019

Capacity constrained

AMG

Sales vs. key competitor 2019



Conquest potential



Our sub-brands will allow us to target specific “tribes” better

“Brands need to light the fire we can gather around...”

JP Kuehlwein

We will unlock the potential of our sub-brands

Mercedes-Benz



G



EQ



AMG



MAYBACH



Performance  
Luxury

Sophisticated  
Luxury

Modern  
Luxury

Adventurous  
Luxury

Progressive  
Luxury

Mercedes me

# Clear growth plan for every sub-brand



AMG: Significant growth and high-performance electrification



In 2021, the links between AMG and Formula 1 will intensify



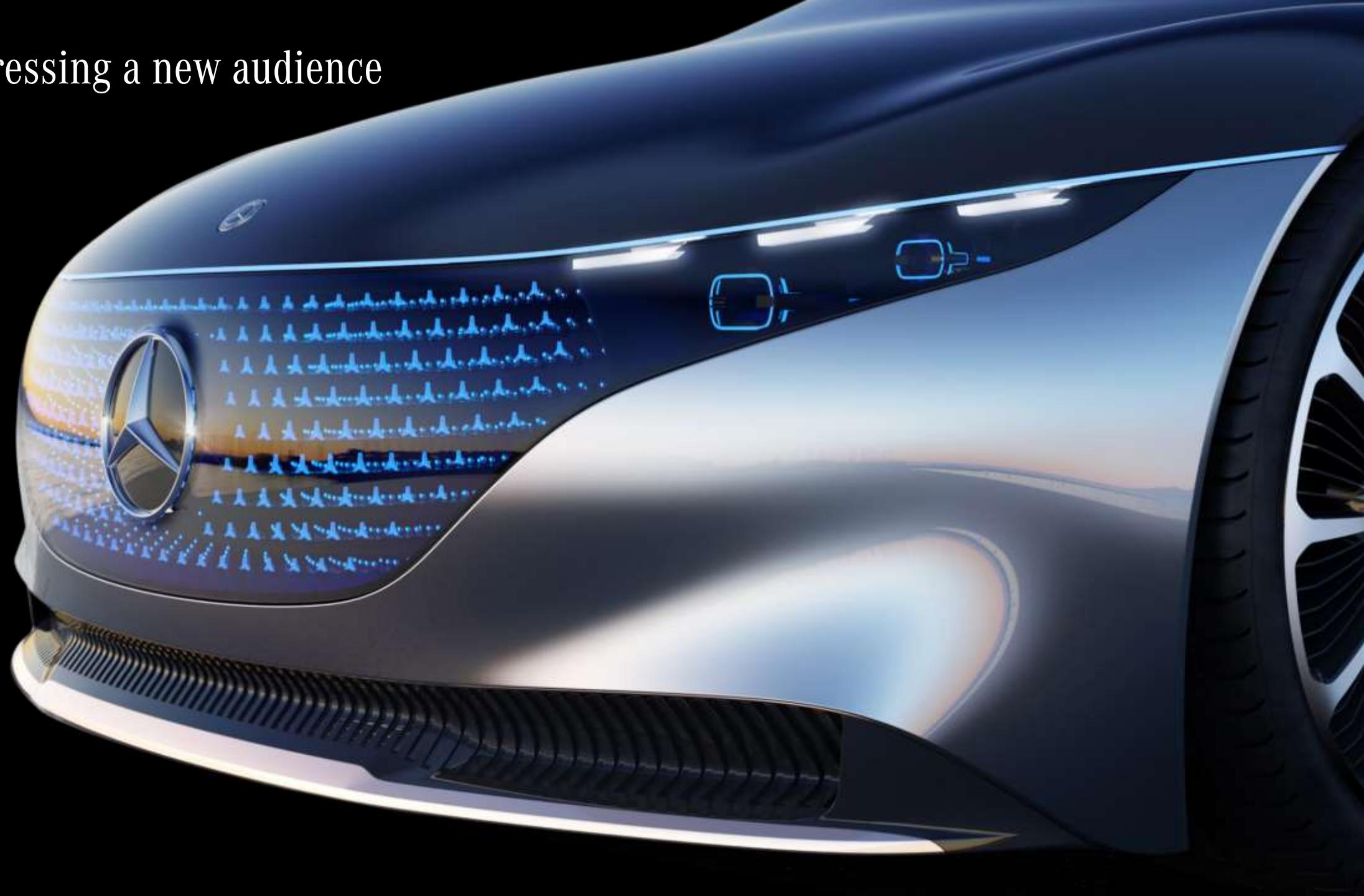
Maybach: Global opportunity, double in size, go electric



G: Grow the legend, go electric



EQ: Addressing a new audience



Summing up pillar 3

We will seek  
substantial EBIT growth  
via our sub-brands.

# Pillar number four - our lifetime approach to customers

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Sustainability as a guiding principle

Driven by a highly qualified and motivated team

The value of monogamy: Life-long relationships with our customers



It's about owning the customer relationship and leveraging our car parc and customer base

### Embrace customers



Luxury experience,  
greater concentration

Significant  
acceleration

Personalized  
relationships

Still significant profit  
growth ahead

OTA  
upgrades

### Grow recurrent revenues

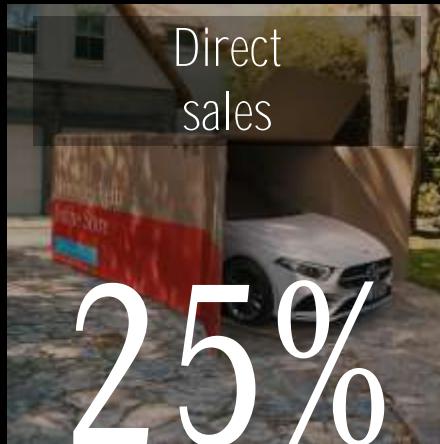
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### Embrace customers



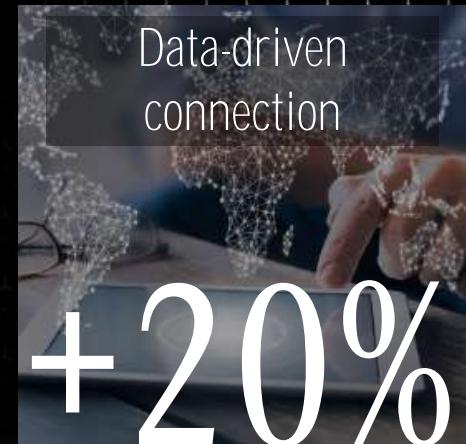
67%

would pay more for a great experience



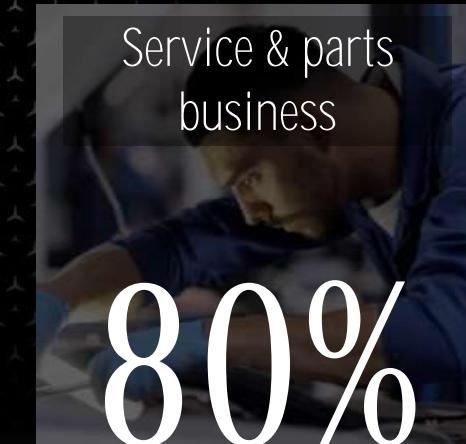
25%

online sales target in 2025



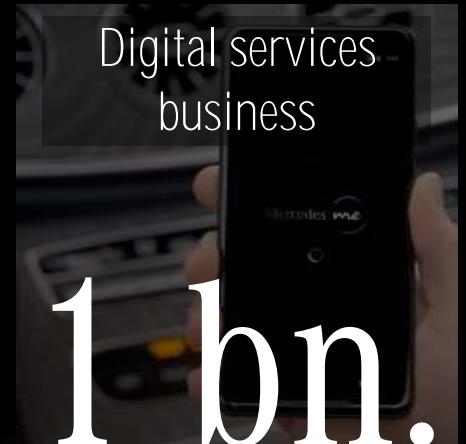
+20%

customer leads<sup>1</sup>



80%

data driven workshop business target in 2025



1 bn.

€ EBIT target by 2025

<sup>1</sup> UK trial

Summing up pillar 4

We have one of the world's most  
valuable customer bases - we  
intend to make the most of it.

# Now let's talk about our technology strategy

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# Ambition 2039: Our societal responsibility

2022

Carbon-neutral  
production globally

2030

>50% xEV share

2039

Carbon-neutral



... and our supply chain will follow our ambition

# Our economic responsibility

Our challenge

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Contribution margins on EVs

Technology and eDrive investments

Legacy activities

Our answer

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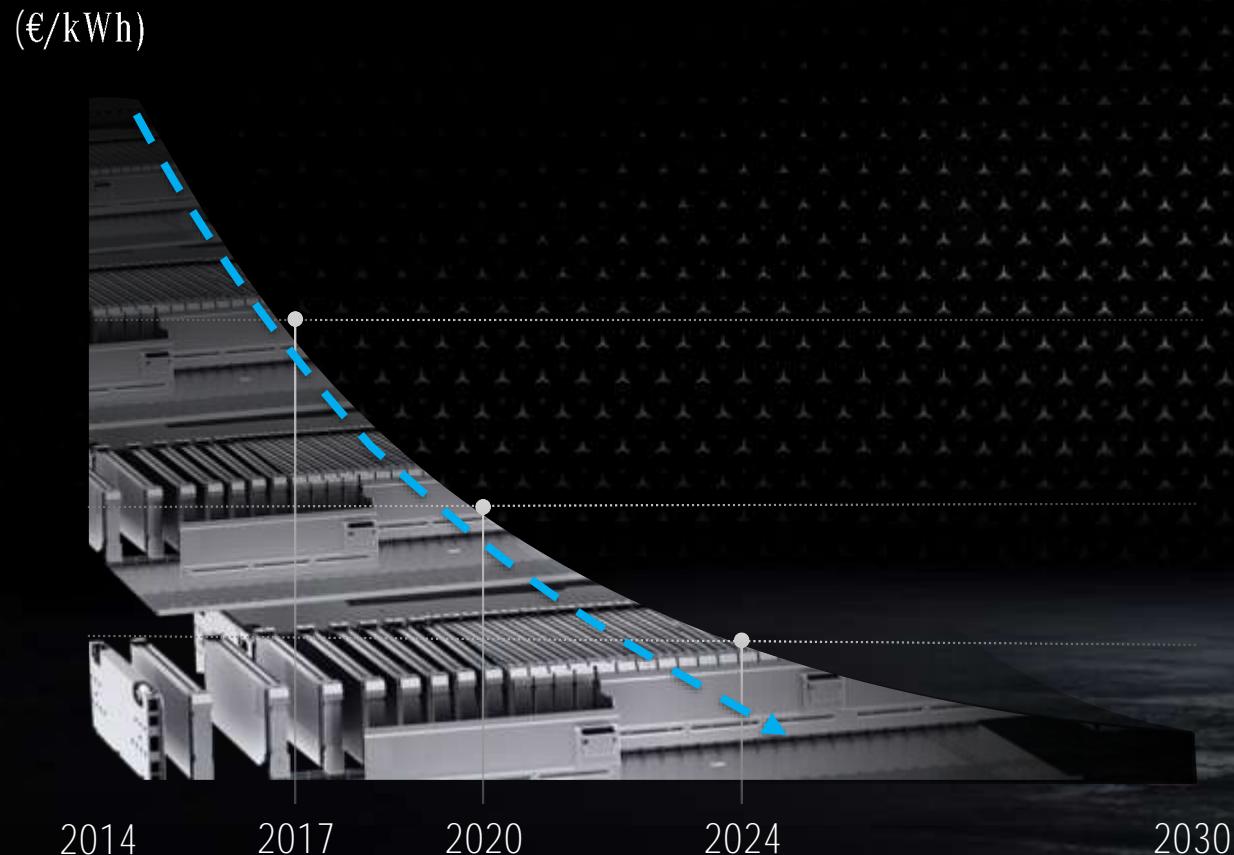
Driving down powertrain costs

Intelligent platform strategy

Clear plan for the transition

# Our path to higher EV profitability

Costs of batteries coming down faster than originally expected



Other measures

Significantly **below €100/kWh** system level  
by mid-decade (cell/module/system)

**Simplified Modular Strategy** will drive  
economies of scale

Partnerships and **supply secured**  
beyond 2025

Targeting strong **contribution margins**  
for all new architectures **from 2025<sup>1</sup>**

New high-end EQ products target  
**solid profitability from the start**

<sup>1</sup> Without governmental incentives

# Our aim is to lead in electric drive



We will rapidly  
expand our portfolio of  
luxury xEVs



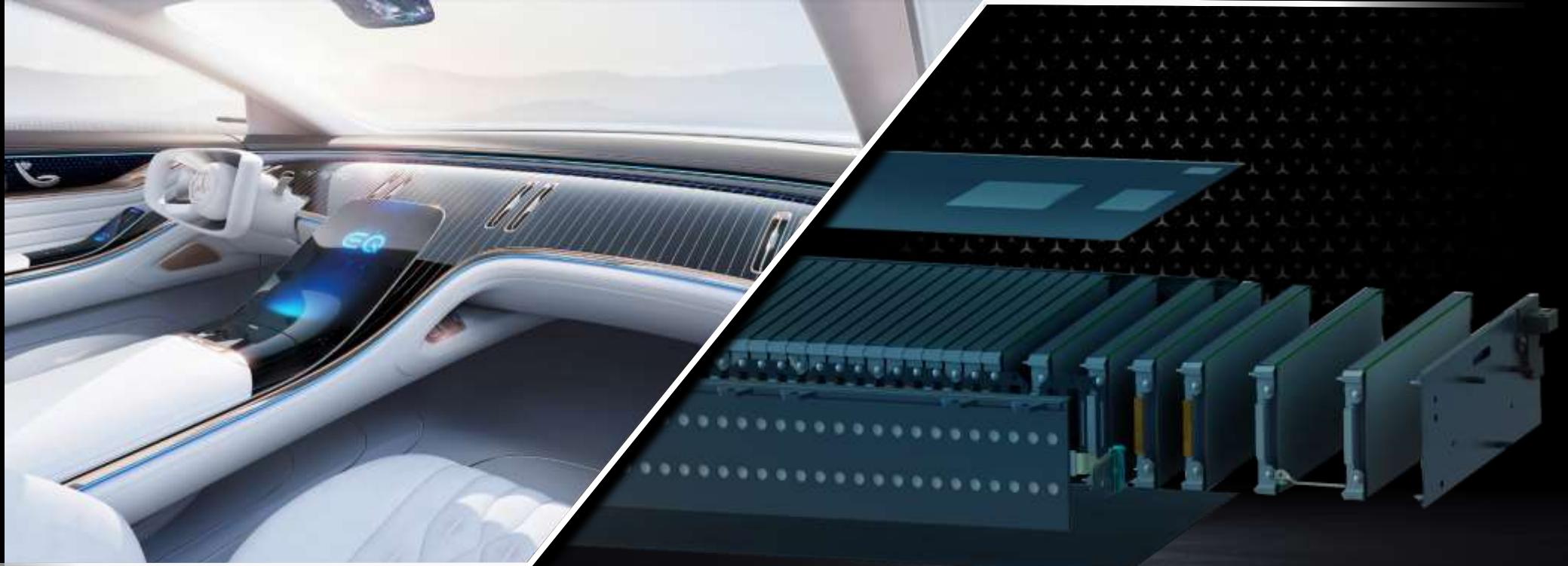
We will accelerate  
range and efficiency



We will offer a  
state of the art  
charging experience

We will build the world's most **desirable** electric cars

Aiming to take the lead in EV with a true Mercedes-Benz luxury experience -  
the combination of aesthetics and technology



Quality &  
craftsmanship

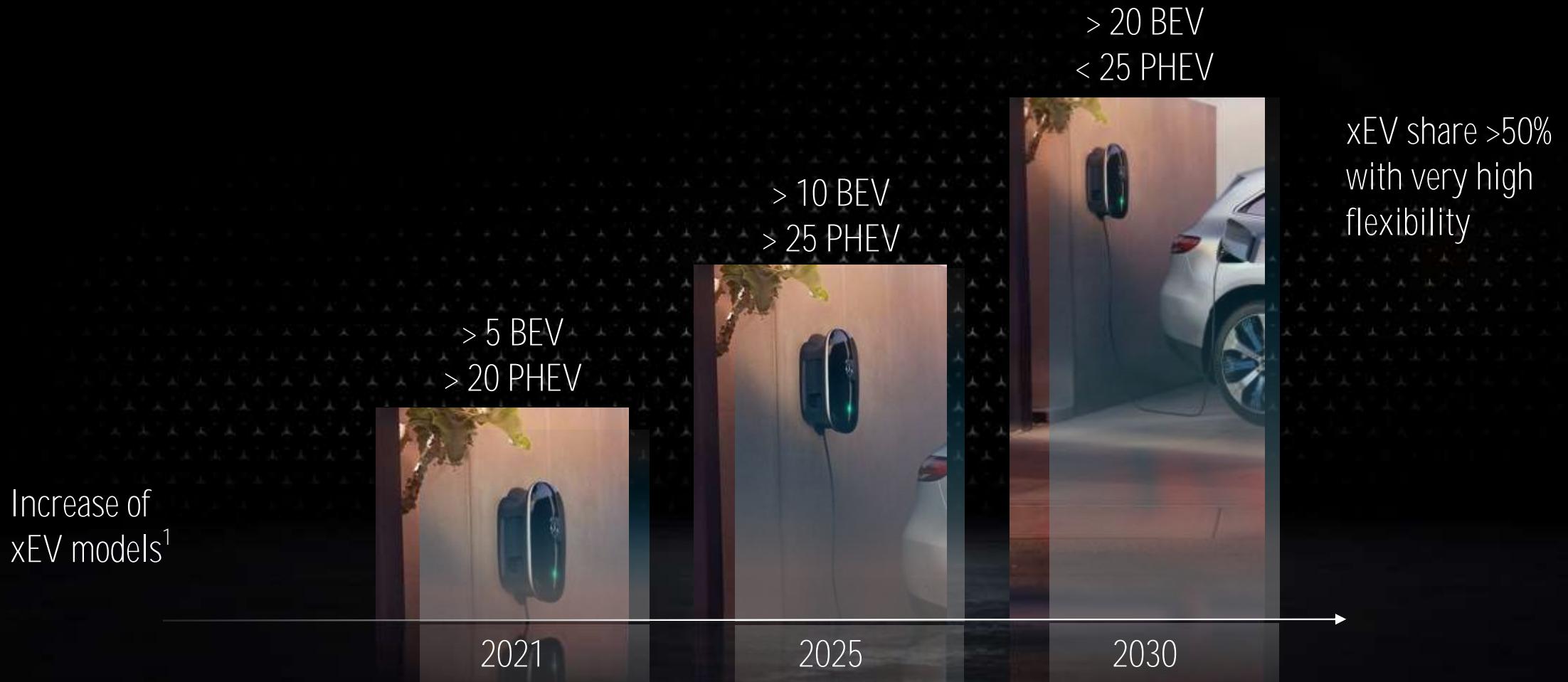
Luxury  
refinement

Sublime  
ride & drive

World class  
safety

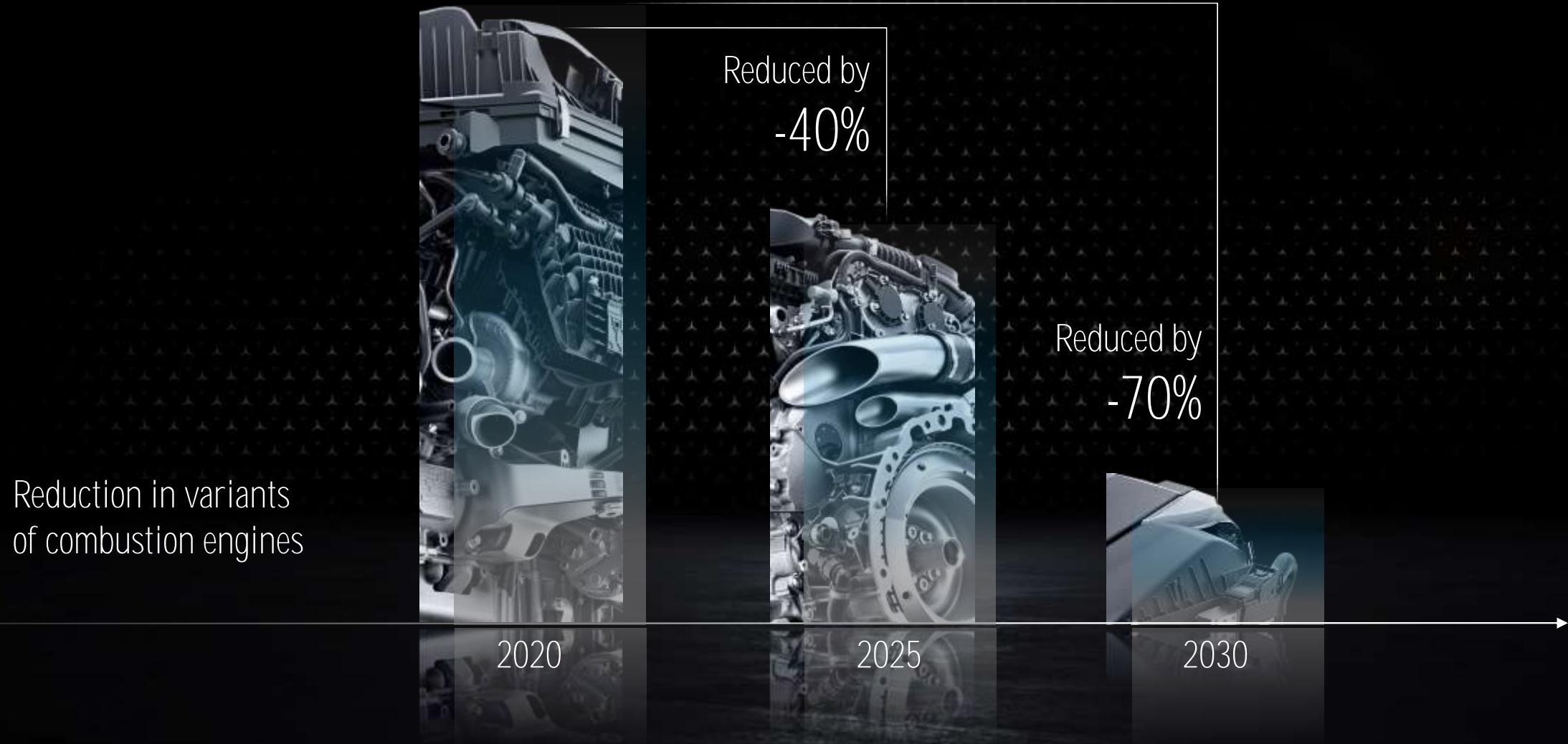
Exceptional digital  
experience

# An electric future: We will rapidly expand our electric portfolio



<sup>1</sup> MB xEV models, incl. EQV and T-Class, w/o smart

# An electric future: We will significantly reduce our combustion engine variants



# Attractive PHEV products will support reaching CO<sub>2</sub> targets



<sup>1</sup> Worldwide harmonized light vehicles test procedure - low, equivalent all electric range - combined

# We are fully committed to dedicated electric architectures

Today

Powertrain flexible architecture



EQC



EQA



EQB

Dedicated large electric platform (EVA)



EQS



EQE



EQS SUV



EQE SUV

Dedicated compact and mid-size  
electric platform (MMA)<sup>1</sup>



Stay tuned!

<sup>1</sup> "Electric First" skateboard, intelligent modular strategy with body variants for electrified ICE

Launching in 2021: Our dedicated EVA platform for large cars will deliver high-tech performance and luxury

Dedicated electric skateboard architecture

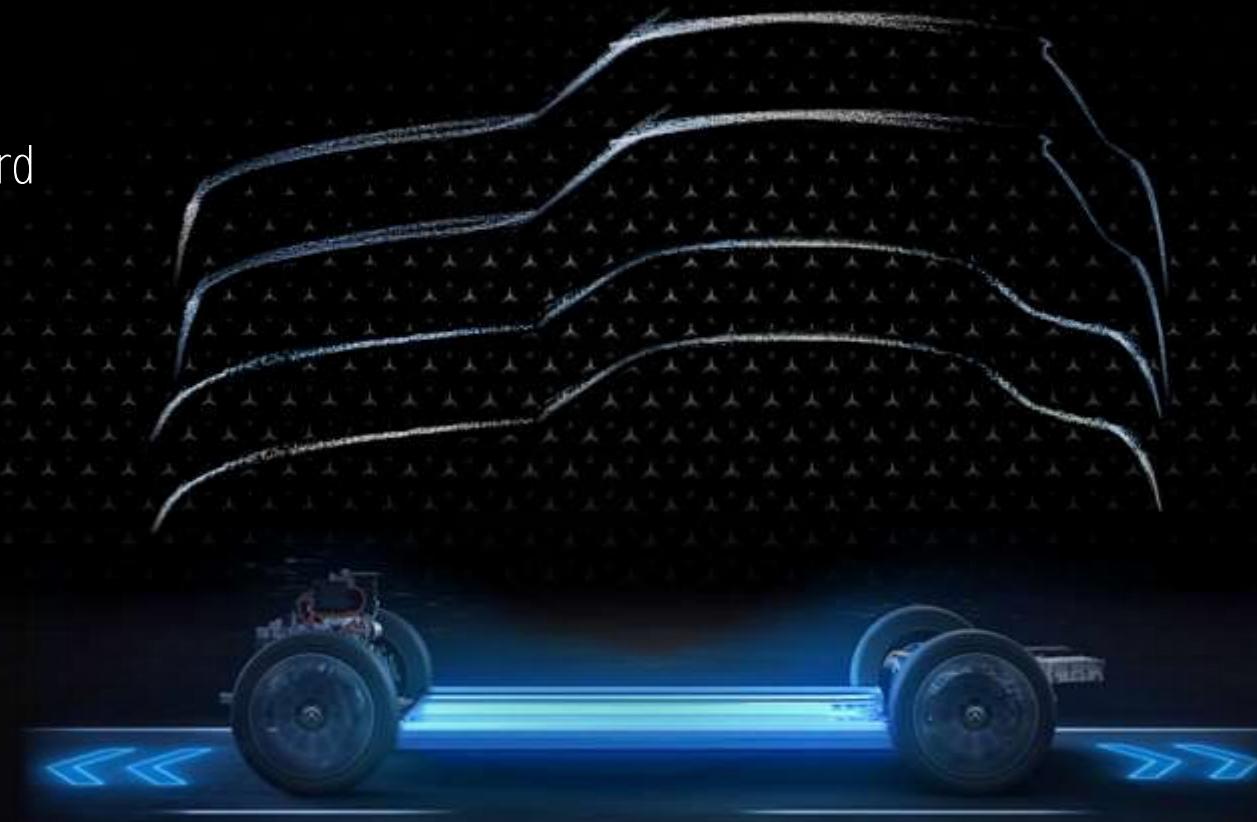
Proprietary Mercedes e-drive technology

Production in Germany,  
China and U.S.

True luxury experience;  
exceptionally quiet ride

>700 km  
WLTP range

Up to 500kw



# The next step: MMA compact and mid-size car electric platform - uncompromising ‘Electric First’ EV-architecture and modules

Exceptional range

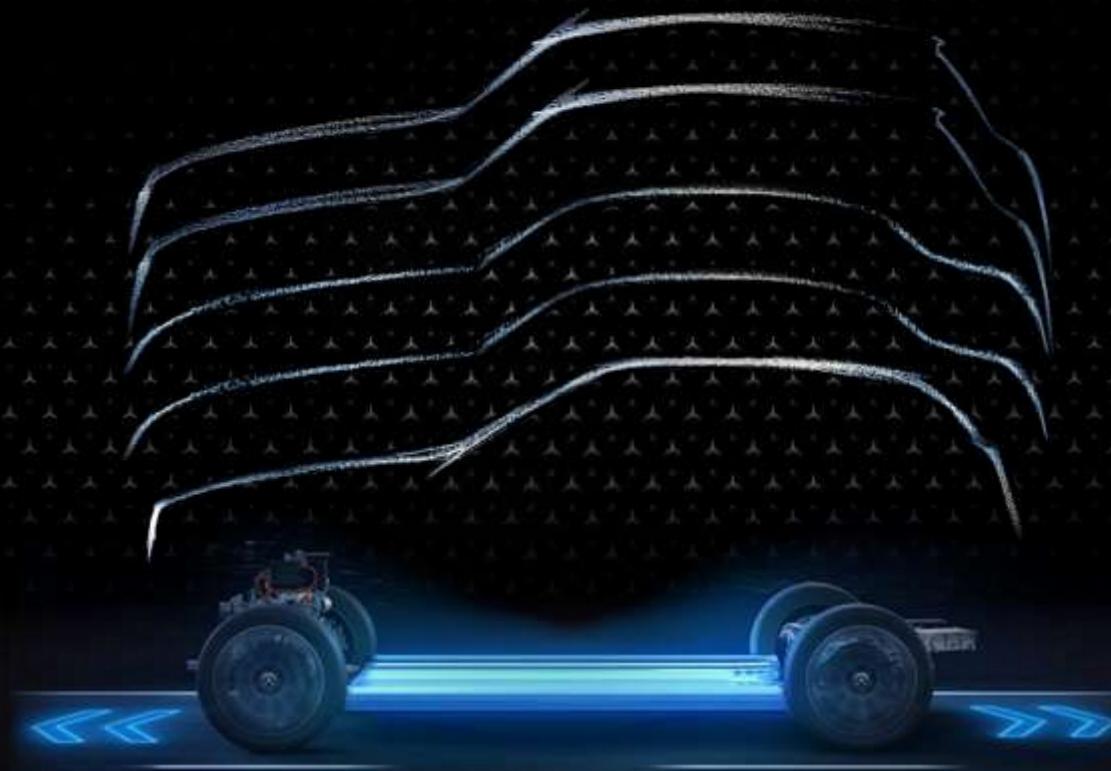
Benchmark high power charging

Highly energy efficient drivetrain & vehicle

Very competitive e-drivetrain costs

Luxury: aiming to offer best noise and comfort in the industry

State-of-the-art digital experience



Optimized investment & cost structure

Range through efficiency: Focus on all relevant levers and total vehicle optimization



# Next generation of our e-drive unit developed in-house

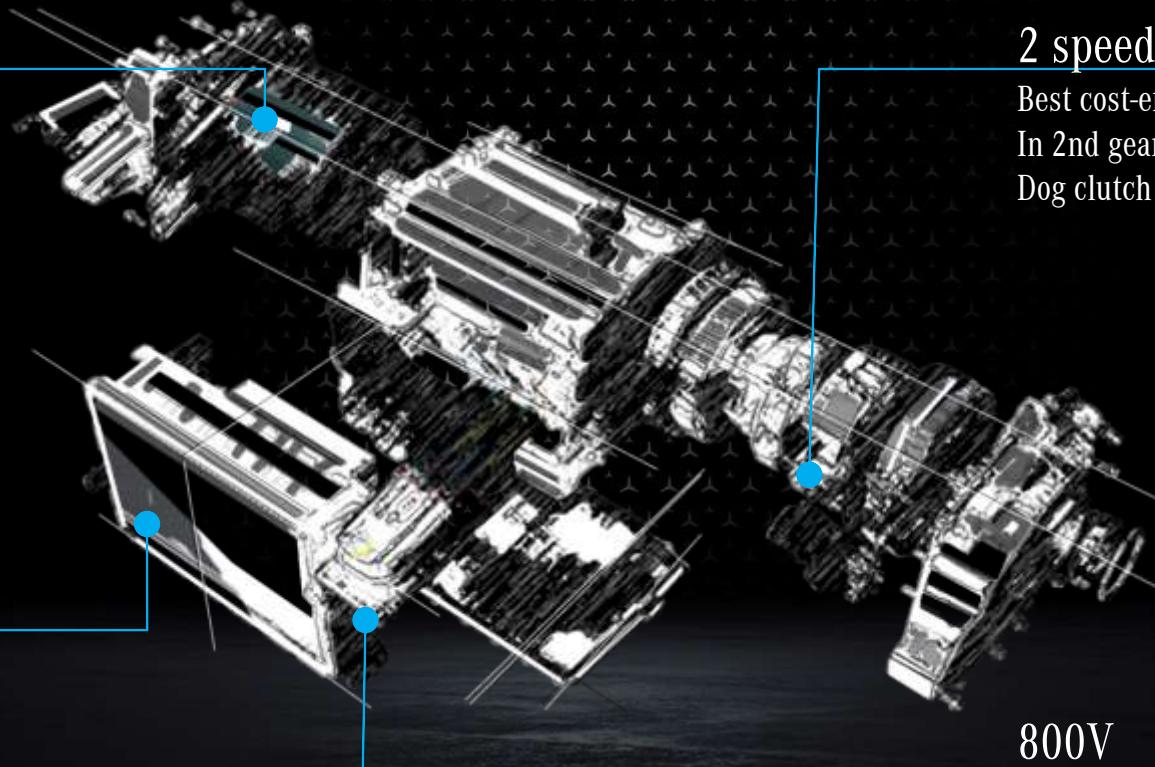
## Electric-motor

PMSM-technology<sup>1</sup>

Increase active diameter

Optimized oil cooling concept

Scalable e-motor length



## SiC-Inverter

Reduction of switching loss (specific transistor)

Combined control unit - saves costs & weight

Variable switching frequency

## 2 speed gearbox

Best cost-efficiency-ratio on system level

In 2nd gear one planetary gear active

Dog clutch to reduce drag loss

800V

Reduction of current & energy losses  
with same power output  
for cost & weight savings

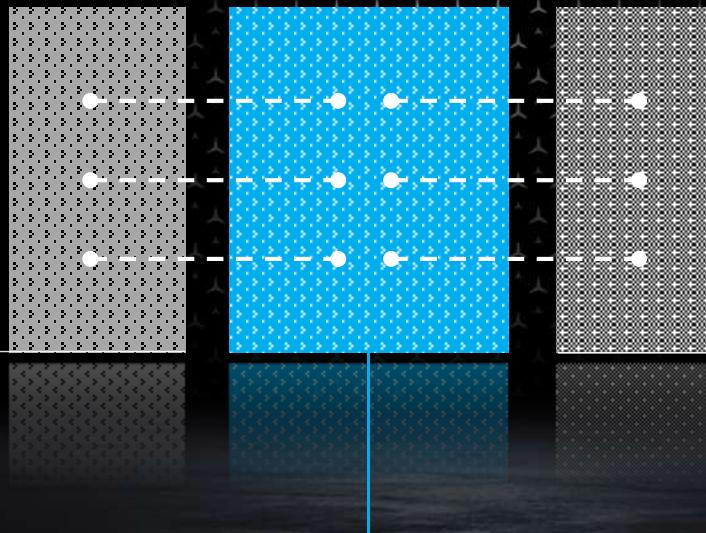
<sup>1</sup> PMSM = Permanent-magnet synchronous motor

Mercedes-Benz has extensive in-house battery R&D, and also works closely with key strategic development partners

## Next-gen battery development

### Cell format and production

- Continuous assessment of different cell architectures
- Internal design of new manufacturing techniques and joint development of processes with strategic partners



### Anode - increase energy density

- Silicon based anodes: strategic partnership with **SILA** (specific anode material, capacity, and energy density)
- Lithium metal anodes (specific energy density on cell level)

### Simulation - speed up battery development

Improvement of simulation methods by digital twin simulation (physic based models, matching model vs. reality, multilevel simulations)

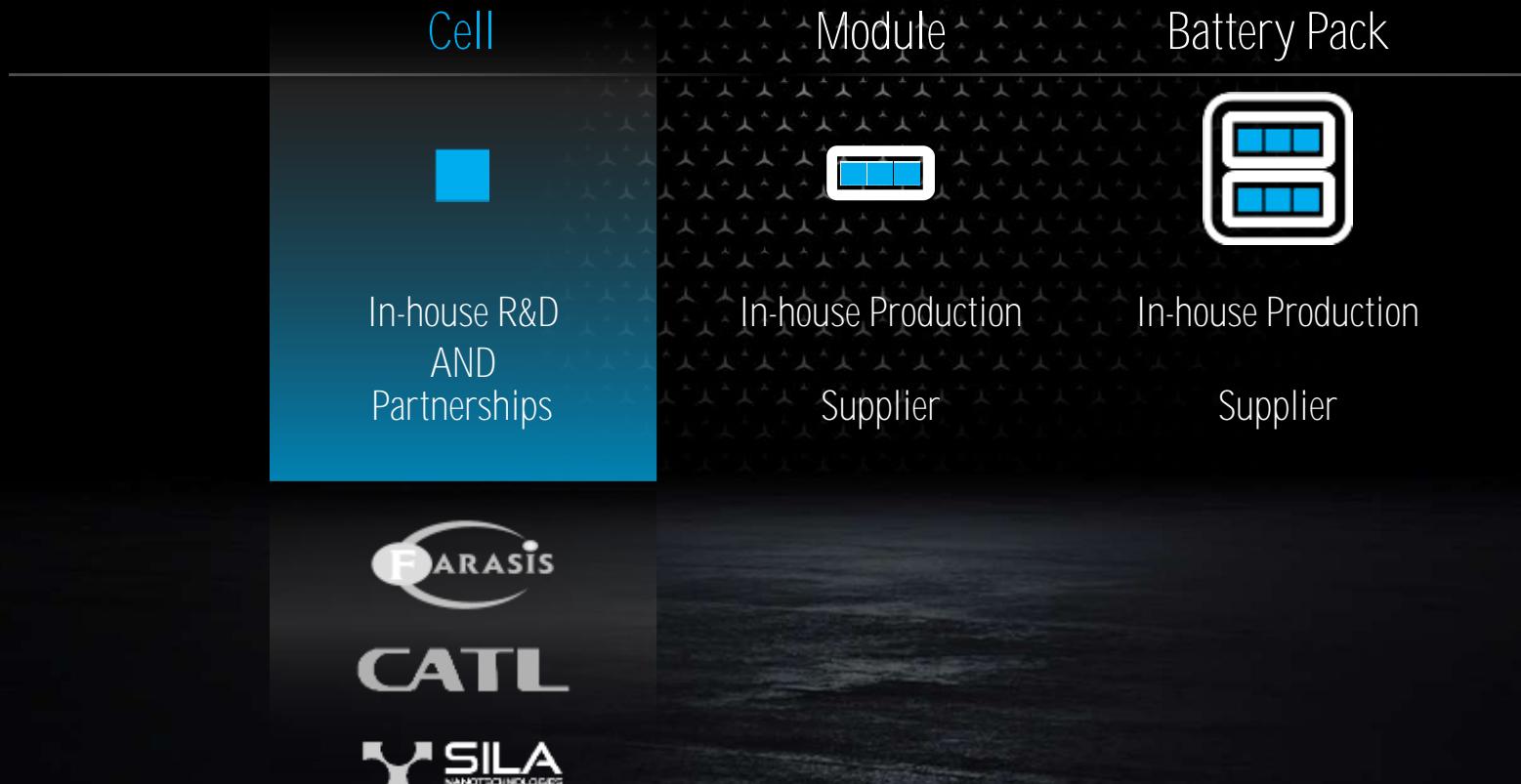
### Cathode - sustainability and cost reduction

- Reduction of cobalt as our contribution to sustainability by increase of nickel-rich cathodes
- LFP cathodes as cost optimized entry type option

### Electrolyte - increase safety

Optimized electrolytes to significantly improve overall cell performance (lifetime, power) and solid-state electrolyte for high energy density chemistries and intrinsic stability

Careful capital allocation: We drive innovation via in-house R&D and partnerships - but leverage strategic suppliers for cell production



# Our software delivers a seamless and easy EV-charging experience

80% of public infrastructure is accessible via Mercedes me in almost all markets

Over 350,000 charging stations worldwide  
one contract, one invoice



The new EQS will offer high speed charging, enabling long distance capability



>250 km  
in 15 min<sup>1</sup>

<sup>1</sup> Preliminary forecast based on WLTP indicated range

Range: Towards the next frontier

A dark, low-angle photograph of the front of a Mercedes-Benz VISION EQXX concept car. The car's sleek, aerodynamic lines are visible against a dark background. The headlight area features a prominent, illuminated red 'EQ' logo. The main body text 'VISION EQXX' is overlaid in large, white, sans-serif capital letters.

VISION EQXX

# Now let us explain our software strategy

Think

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Sustainability as a guiding principle

Driven by a highly qualified and motivated team

We have already made huge strides in our software competence and technology offer

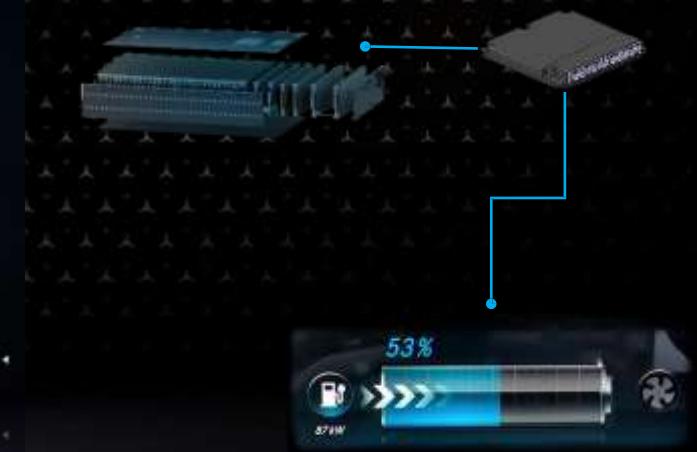
MBUX Software



ADAS Software



Battery Management Software



# The digital user experience in the S-Class sets new standards

Crystal clear  
**OLED** display and  
3D instrument cluster

Over  
the Air  
updates

Augmented  
Reality  
head-up display

**Biometric**  
authentification  
for personalized settings

Intuitive  
gesture  
control



Natural voice  
interaction in  
27 languages

Personalized  
infotainment  
on each seat

# In 2021, we aim to take automated driving to the next level



## L3 Drive Pilot<sup>1</sup>



## L4-ready Parking System:<sup>2</sup>

Intelligent Park Pilot incl. 3D view



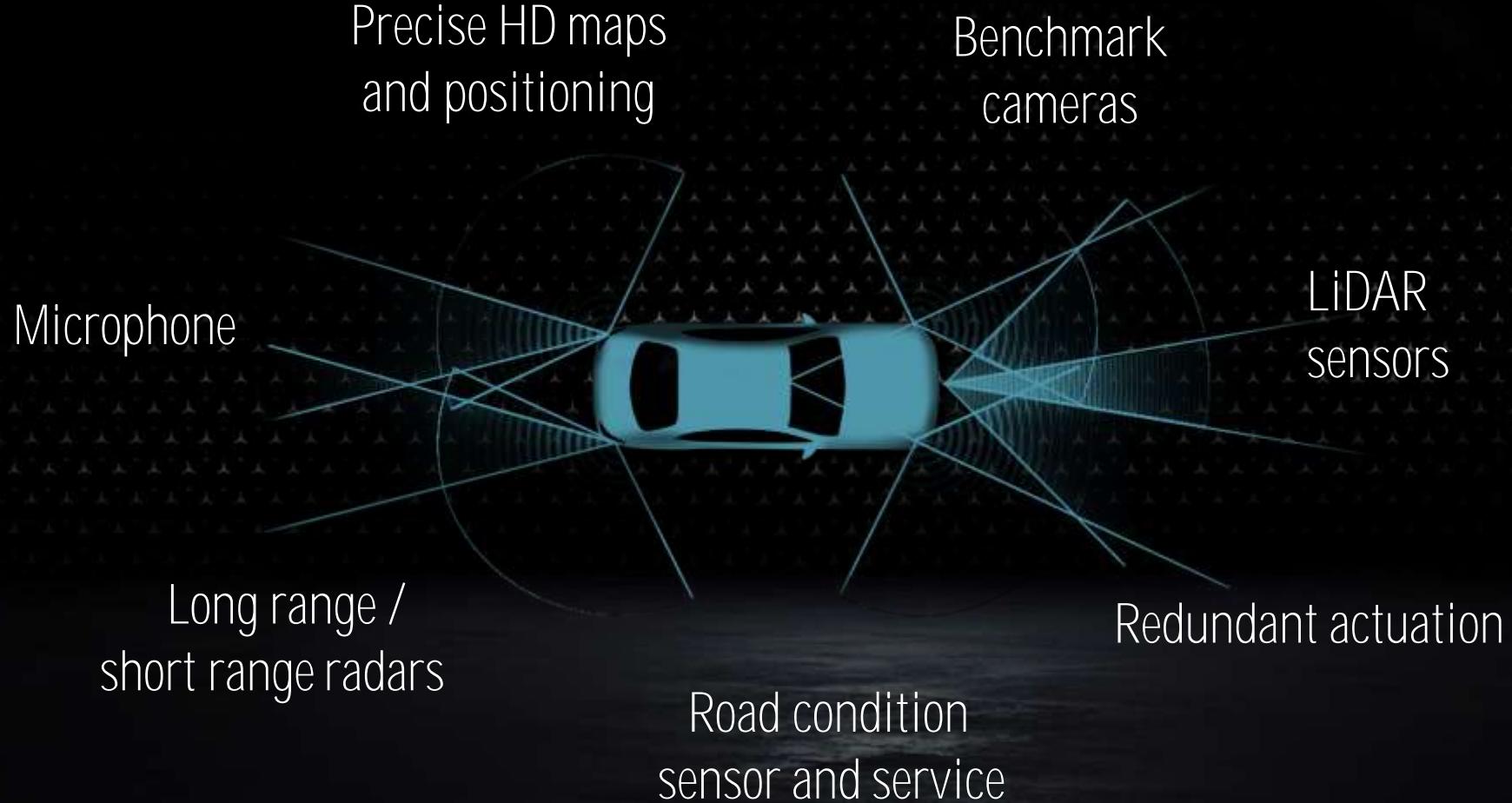
OTA-based learning  
Automated Driving functions



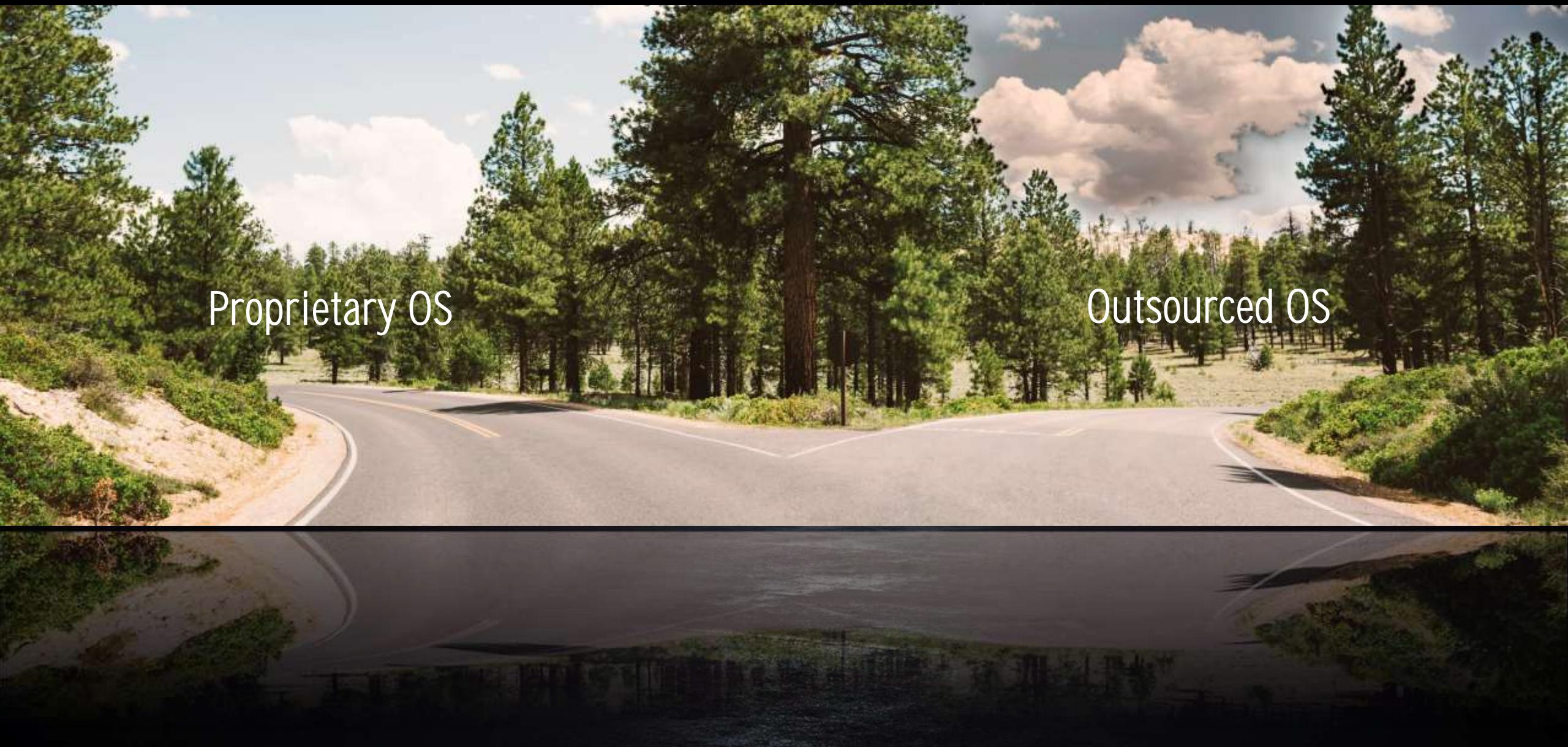
Augmented Reality  
Automated Driving experience

<sup>1</sup>L3 System according to ALKS, planned for Germany first; <sup>2</sup>This parking function will be available for use on public roads as soon as regulations and infrastructure allow.

# L3 S-Class: Technology suite including LiDAR and high definition maps



Decision time for the industry: Which software path to choose?



Our own proprietary operating system will deliver an extraordinary customer experience

# MB.OS

Compelling luxury experience  
Speed of execution  
Higher customer loyalty

Scalable, lower variable costs  
Lower complexity  
Recurrent revenues

# What exactly is MB.OS? And what will Mercedes-Benz develop?

## Vehicle software

Frontend Layer  
100% in-house

Applications Layer  
Mainly in-house<sup>1</sup>

Middleware Layer  
Partially in-house

Infrastructure Layer  
Partially in-house

Cloud/ IoT  
5 domains:  
Drive train  
Autonomous Drive  
Infotainment  
Body control  
Communications

Full integration by Mercedes-Benz

## Vehicle hardware

Sourced from suppliers  
but **chipset specifications**  
**defined by Mercedes-Benz**  
(key strategic partners)

**Consolidated hardware**  
strategy away from  
many ECUs

<sup>1</sup> Automated Driving co-developed with Nvidia

We will deliver MB.OS by 2024 by further expanding our international software development network - but remember “smart teams are better than big teams”

24

hours from idea to new  
function as prototype

3

months to  
series release



Co-inventing: Teaming up with the best



NVIDIA®

Summing up pillar 5

Leadership in electric drive  
and proprietary car software will  
be essential for our future success.

# Finally, let's talk about our financial framework

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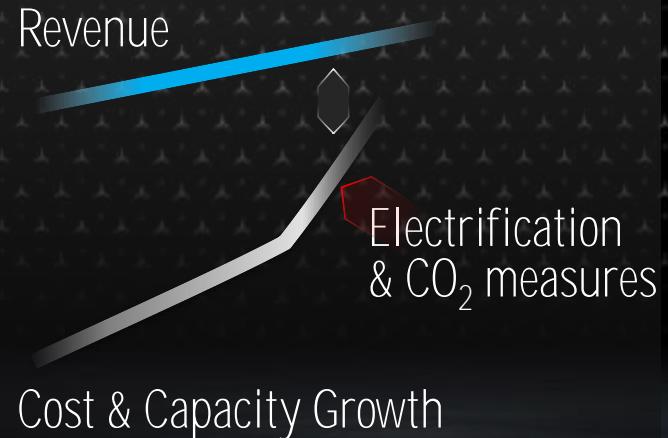
Driven by a highly qualified and motivated team

# The challenges are clear

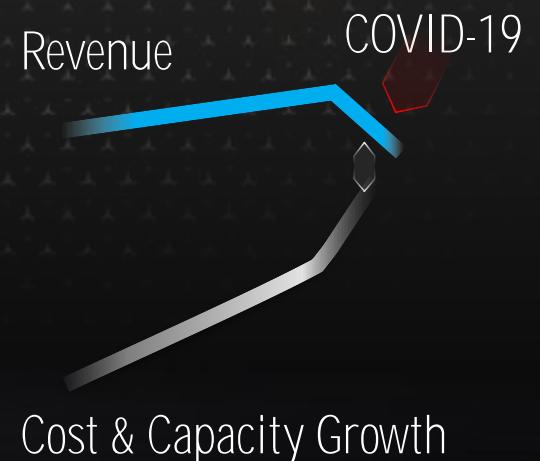
Our initial challenge ...



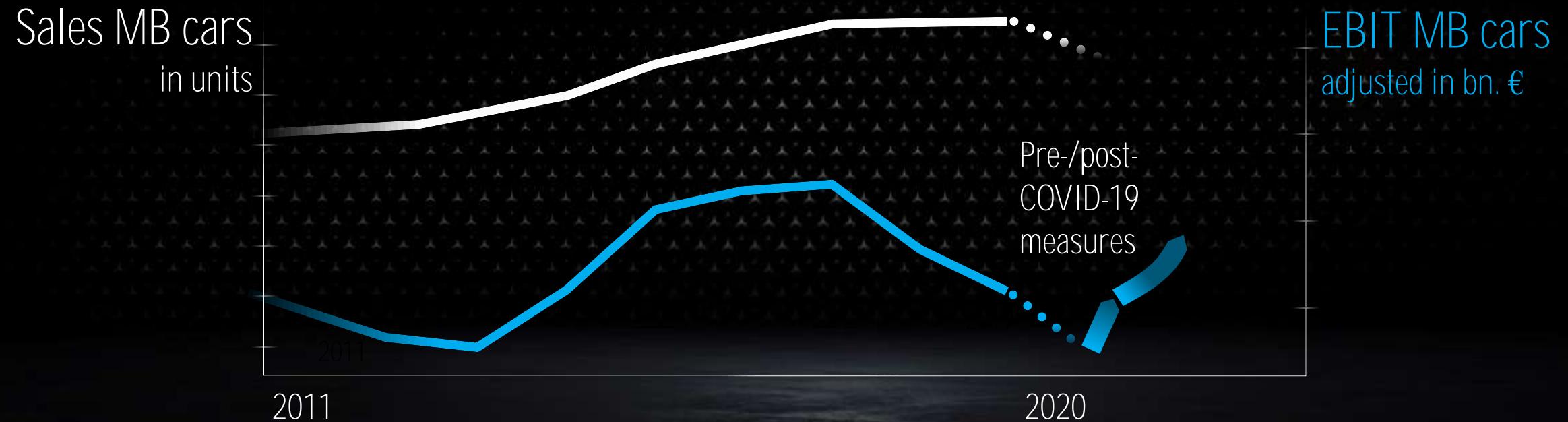
... got reinforced ...



... and amplified.



Our break-even point is too high



In response we have stepped up our cost reduction and capacity adjustment measures

Significant **short-term cost reduction** and **cash preservation** measures implemented and being continued

Substantial cost reduction and capacity adjustment measures to **lower break-even point** initiated:

- CAPEX and R&D
- Fixed costs
- Variable costs (internal & external)
- Capacity adjustment and powertrain transformation

Driving continuous performance improvement culture



# Indicators of change

Q2 Sales  
MB cars  
in units

409,000  
(-29% vs. py)

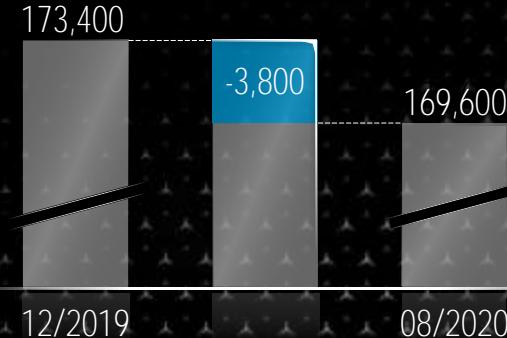
Q2 EBIT  
MB AG  
in mn. €, adjusted

-284

Q2 CFBIT  
MB AG  
in mn. €, adjusted

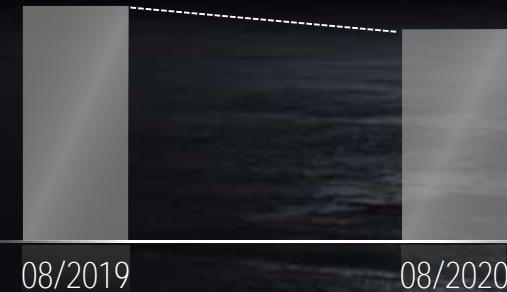
522

Accelerating headcount reduction  
Headcount (rounded)

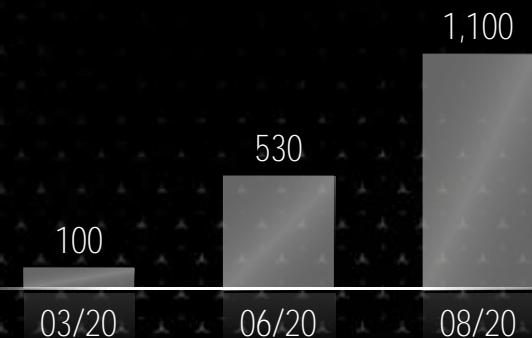


Fixed costs coming down  
YtD Jan-Aug 2019 vs. 2020

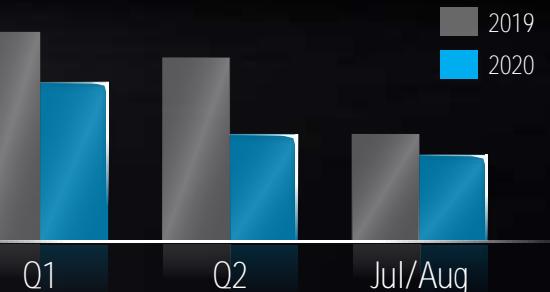
-12.3%



Increase in exit packages signed  
Contracts signed, cumulated



Reducing external spend (purchase requisition)  
Indirect spend, Jan-Aug 2019 vs. 2020



2019  
2020

# We will lower CAPEX and R&D

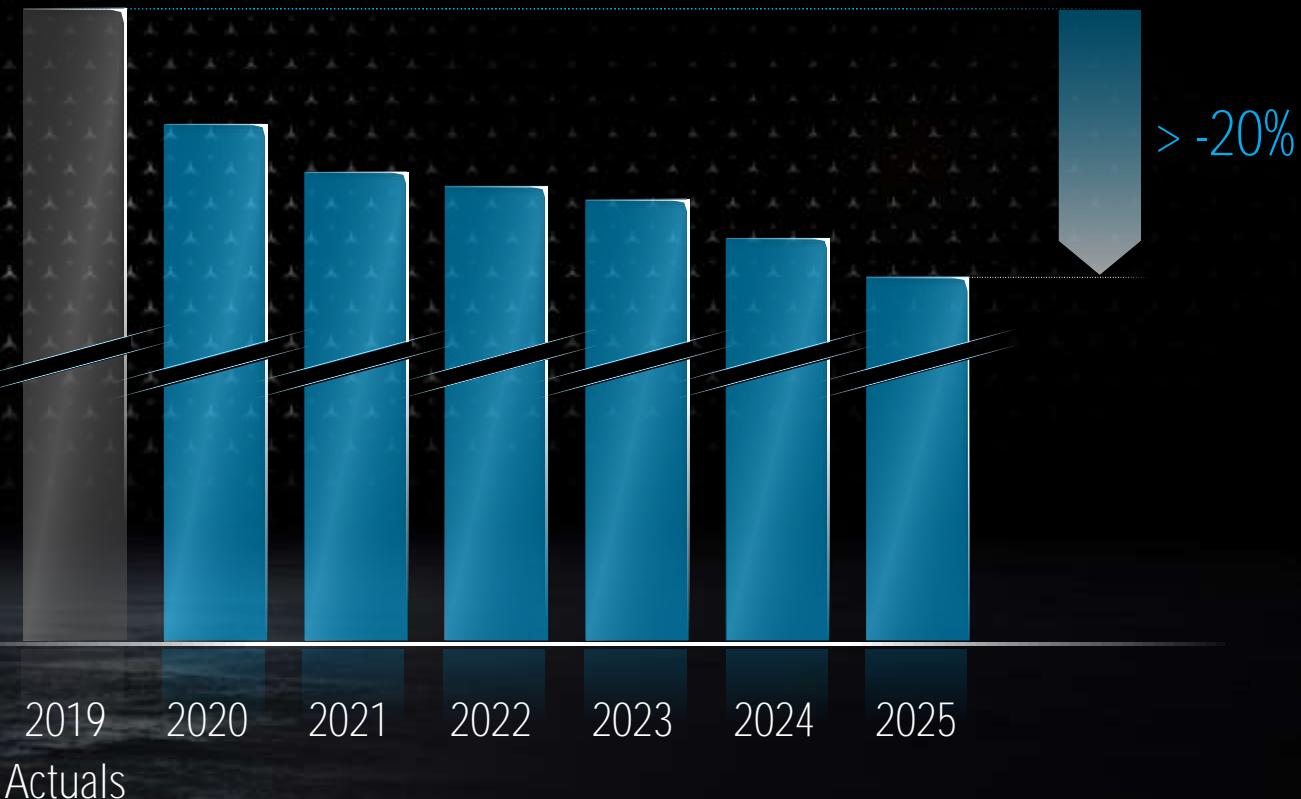
## Key levers

Reduction of platforms/portfolio,  
and vehicle complexity

Reduced spending on conventional  
powertrain and highly standardized  
EV architectures

Streamlined industrial footprint

Absolute € budgets year by year  
for CAPEX and R&D (not % of sales targets)



Note: refers to Capex, R&D and non-recurring expenses - cash flow view

# We will significantly reduce our fixed costs

Comprehensive fixed cost optimization scope, including

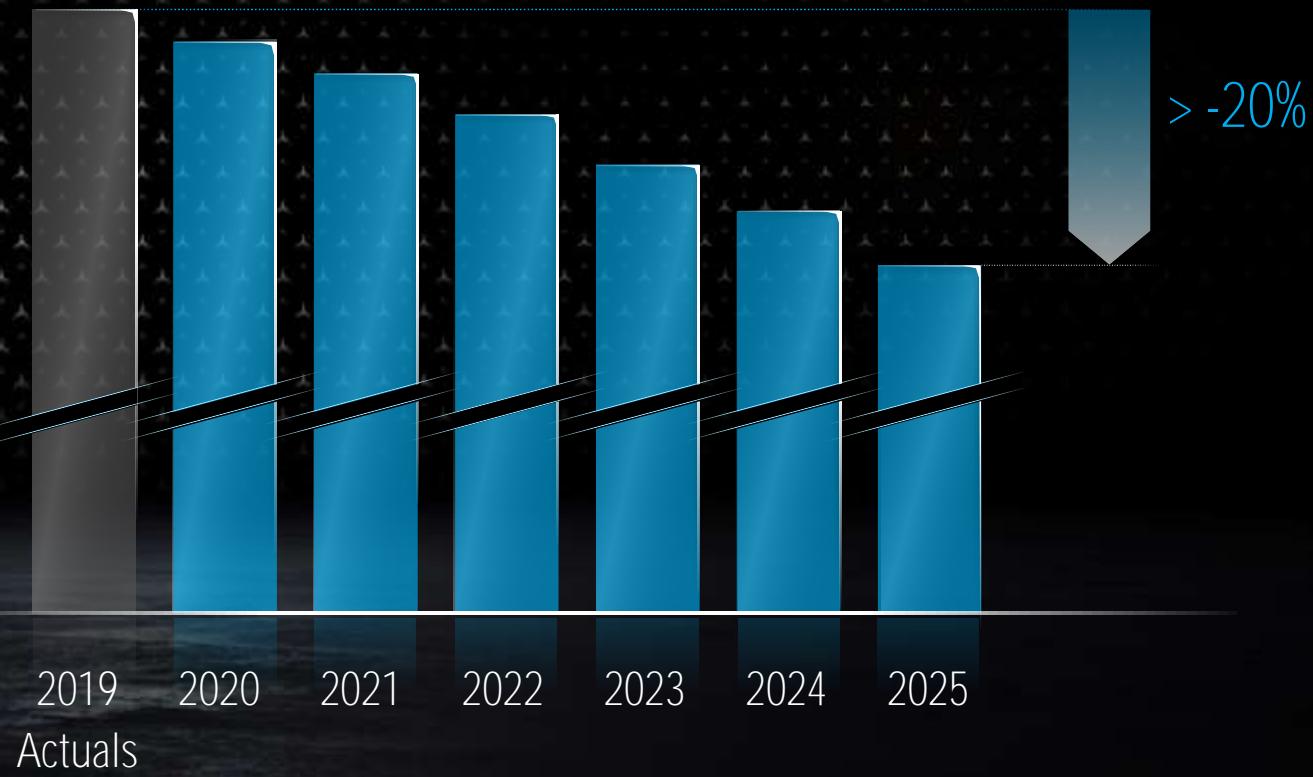
Absolute fixed cost reduction

Personnel cost reduction targets continued through to 2025

Adjustment of production capacity

Structural change in marketing & sales

Sustainable implementation of COVID-19 learnings, e.g. travel, consulting, facility management, etc.



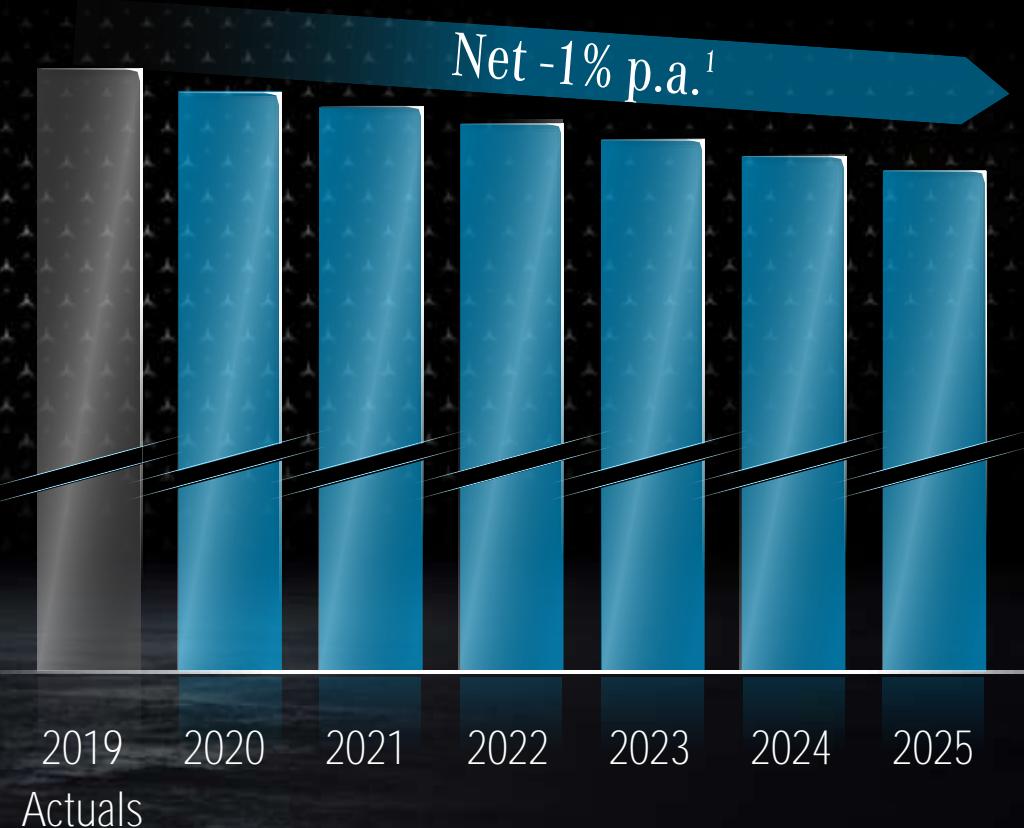
# We will reduce variable costs to mitigate CO<sub>2</sub> burden

Comprehensive optimization of all external  
and internal variable cost levers, including

Increased saving targets for  
material costs

Ambitious targets for variable  
manufacturing costs

Reduction of variable sales costs



<sup>1</sup> Before mix change from xEV

We have initiated a series of transformational actions to drive down costs

## Lower cost base and improve industrial footprint

Operational  
footprint

Supply  
strategy

Portfolio and complexity  
reduction

Performance  
culture

Future  
sales setup

Powertrain  
transformation

Global engineering  
footprint

E2E processes and  
organizational complexity

IT and  
full digital value

Governance  
and admin

# Our financial ambitions for MB AG 2025

Market environment/revenues



Contribution margin



Profitable growth

Fixed costs

> -20% vs. 2019

> -20% vs. 2019

> -20% vs. 2019

CAPEX and R&D (CF impact)

> -20% vs. 2019

> -20% vs. 2019

> -20% vs. 2019

RoS MB AG

Mid to high single digit

High single digit

Double digit

Cash conversion



0.7 - 0.9x

# In summary: Our refocused strategy

Think

and act  
like a luxury  
brand

Grow economic  
value

Focus

on  
profitable  
growth

Higher portfolio  
profitability

Expand

customer base  
by growing  
sub-brands

Substantial  
EBIT growth

Embrace

customers and  
grow recurrent  
revenues

Significant profit  
streams

Lead

in electric  
drive and  
car software

Leverage  
technology

Lower

cost base  
and improve  
industrial  
footprint

Absolute cost  
reduction

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cost base  
and improve  
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Sustainability as a guiding principle

Driven by a highly qualified and motivated team

# Disclaimer

This document contains forward-looking statements that reflect our current views about future events. The words “anticipate,” “assume,” “believe,” “estimate,” “expect,” “intend,” “may,” “can,” “could,” “plan,” “project,” “should” and similar expressions are used to identify forward-looking statements. These statements are subject to many risks and uncertainties, including an adverse development of global economic conditions, in particular a decline of demand in our most important markets; a deterioration of our refinancing possibilities on the credit and financial markets; events of force majeure including natural disasters, pandemics, acts of terrorism, political unrest, armed conflicts, industrial accidents and their effects on our sales, purchasing, production or financial services activities; changes in currency exchange rates and tariff regulations; a shift in consumer preferences towards smaller, lower-margin vehicles; a possible lack of acceptance of our products or services which limits our ability to achieve prices and adequately utilize our production capacities; price increases for fuel or raw materials; disruption of production due to shortages of materials, labor strikes or supplier insolvencies; a decline in resale prices of used vehicles; the effective implementation of cost-reduction and efficiency-optimization measures; the business outlook for companies in which we hold a significant equity interest; the successful implementation of strategic cooperations and joint ventures; changes in laws, regulations and government policies, particularly those relating to vehicle emissions, fuel economy and safety; the resolution of pending government investigations or of investigations requested by governments and the conclusion of pending or threatened future legal proceedings; and other risks and uncertainties, some of which we describe under the heading “Risk and Opportunity Report” in the current Annual Report or latest Interim Report. If any of these risks and uncertainties materializes or if the assumptions underlying any of our forward-looking statements prove to be incorrect, the actual results may be materially different from those we express or imply by such statements. We do not intend or assume any obligation to update these forward-looking statements since they are based solely on the circumstances at the date of publication.